Purchasing Service Agreement
CITY OF AUSTIN

#46

AGENDA
DATE: 4/20/2006

RECOMMENDATION FOR COUNCIL ACTION

Subject: Approve ratification of the expenditure to date of $850,000 for a coal transportation tariff agreement with BNSF RAILWAY COMPANY, Ft. Worth Texas (BNSF) as previously authorized as a Critical Business Need; and approve execution of subsequent one-month to thirty-six month coal transportation tariff agreements with BNSF RAILWAY COMPANY, Ft. Worth, TX, and UNION PACIFIC RAILROAD, Omaha, NE, for short-term rail transportation contracts, and with STATEWIDE MATERIAL TRANSPORT LTD, Manor, TX, FTS TRUCKING, *Corpus Christi, Texas and* SUNSET LOGISTICS, *Fort Worth,* Texas for short-term trucking contracts, for the transportation of coal supplies to the Fayette Power Project in a combined amount not to exceed $12 million per fiscal year.

Amount and Source of Funding: Funding will be provided through the Electric Utility Fuel Charge revenue fund.

Fiscal Note: There is no unanticipated fiscal impact. A fiscal note is not required.

Requesting Department: Purchasing

For More Information: Carole Cameron, Purchasing Manager/322-6155

Prior Council Action:

Boards and Commission Action:

Purchasing Language: Critical Business Need.

MBE/WBE: This contract was awarded in compliance with Chapter 2-9 of the City Code (Minority-Owned and Women-Owned Business Enterprise Procurement program). No subcontracting opportunities were identified; therefore, no goals were established for this solicitation.

The City of Austin (Austin Energy or AE) and the Lower Colorado River Authority (LCRA) each own an undivided one-half interest in Units I and II of the Fayette Power Project (FPP), a coal-fired power plant near LaGrange, Texas. As FPP Project Manager, LCRA is responsible for the day to day procurement of FPP's fuel and rail needs. However, pursuant to the Fayette Power Project Participation Agreement, AE develops fuel-related strategies in conjunction with LCRA and is a signatory to all fuel and transportation agreements.

The recommended awards will provide "as needed" supplemental rail or truck delivery of coal for coal transportation needs not filled by long-term rail transportation contracts. Recent shortfalls in coal deliveries to FPP and other utilities as well as a movement by railroads to shift new additional business to tariff rates, require a flexible coal transportation program.

The program will allow AE to take advantage of tariff-based rail service options from the two rail carriers capable of delivering coal to FPP. In addition, it will allow FPP to utilize truck transportation of coal from Gulf Coast ports if rail service of Wyoming Powder River Basin Coal is inadequate or unavailable. Additional trucking firms may be added to the contract as they are qualified by LCRA as the operating partner for FPP. LCRA is in agreement and its Board approved a similar program at its January 2006 meeting.

This procurement was determined to be a Critical Business Need by AE due to generation cost considerations, availability of service, and the need to build stock prior to the summer peak season

MEMORANDUM

TO: Mayor and Council Members
Toby Hammett Futrell, City Manager

FROM: Juan Garza, General Manager
Austin Energy

DATE: February 21, 2006

SUBJECT: Critical Business Need Authorization to Execute Tariff-Based Rail Transportation Agreement

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This is a recommendation to execute a tariff based rail transportation agreement with BNSF Railway Company (BNSF) for coal transportation service to the Fayette Power Project (FPP) as a Critical Business Need pursuant to paragraph 7 of Resolution No. 040610-02, the resolution adopting purchasing procedures for Austin Energy (AE). AE owns and operates FPP with the Lower Colorado River Authority (LCRA).

With few exceptions, all the coal requirements for FPP are purchased from coal mines located in the Powder River Basin (PRB) in Wyoming and shipped by rail to FPP. For the past year, these requirements have been transported solely by the Union Pacific Railroad Company (UP) under a long-term contract. Due to substandard performance by UP that reduced deliveries of coal to the plant in 2005, FPP must replenish its coal inventory as well as meet its normal requirements for coal this year. As a result, FPP must ship more coal in 2006 than specified in the UP agreement. Due to rail system constraints and congestion, UP is unable, unwilling or both to offer transportation service above its contract maximum.

When it became evident that UP's performance was substandard and would likely continue for the foreseeable future, AE staff, working with LCRA staff, began pursuing options to supplement UP coal deliveries and rebuild FPP's low stockpile. Among those options was reestablishment of service with BNSF, which is the only alternative rail carrier to FPP and whose contract ended in December 2004. After several months of effort, BNSF established a tariff for common carrier service to FPP in December, 2005. Under its Common Carrier Pricing Authority BNSF 90068, BNSF offers four tariffs: a spot tariff subject to change on 20 days notice; and one, two and three year fixed price tariffs. All fixed price tariffs require an annual volume commitment from FPP, offer lower pricing than the spot tariff and are subject to a monthly fuel surcharge. All BNSF tariff options are more expensive than the current long-term UP contract.

AE staff and LCRA staff have determined that the 12 month fixed-price tariff represents the best option for FPP since it provides for a significant discount from the spot rate and does not lock FPP into a long-term commitment. Since late December AE and LCRA have been working with BNSF to complete tariff documents and work through the logistics to begin BNSF service as soon as possible.

This is a critical business need for three reasons:

<u>Cost</u> – After STP, FPP provides AE its least expensive form of generation. Recent energy price spikes, particularly for natural gas, make it critical that AE be able to fully utilize FPP. An adequate stockpile of coal at FPP will enable AE to avoid the coal conservation it was forced to undertake in 2005 at great expense (~ $7.5 million) since coal-based power costs approximately $15/MW vs. $50 to $75/MW for natural gas-based energy.

<u>Availability & Diversity of Services</u> – Due to increased demand for PRB coal and the diminished level of UP service to FPP, an alternate transportation provider is essential to maintain adequate deliveries and inventory levels.

<u>Timing</u> – AE must expand coal transportation service to FPP as soon as practical to rebuild its stockpile prior to summer peak demand. Since UP will not increase coal transportation tonnage above its contract limit, starting BNSF service as soon as possible is essential for quickly increasing FPP's inventory.

The BNSF transportation contract offers an opportunity for AE to immediately address its coal transportation needs in the most cost effective manner. AE's share of the costs for BNSF coal transportation for calendar 2006 is estimated at $6.5 million.

In the next few weeks AE will be bringing an RCA to Council in substantially the form attached to this memo to address the new service with BNSF as well as establish authority for additional tariff based coal transportation. Both LCRA and AE anticipate that FPP will have an ongoing need to ship coal in excess of its contract with UP. The RCA will establish authority to allow AE to utilize tariff agreements established by either railroad and / or utilize trucking service if necessary.

Please let me know if you have any questions. I can be reached at 322-6002.

Juan Garza
General Manager
Austin Energy